



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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August 10, 2004

TO: Senator Lisa Brown, Chair
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FROM: Chang Mook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: August 10, 2004 REVENUE COLLECTION REPORT

General Fund-State collections totaled \$996.2 million in the July 11 - August 10, 2004 period. This was \$32.5 million (3.4 percent) more than expected. Real estate activity accelerated again this month producing much higher than expected real estate excise tax payments (+23.9, million). This accounts for most of this month's positive variance. Revenue Act (retail sales, business & occupation, use and public utility taxes) taxes were also above (\$5.3 million) the estimate for the month; however, this was due to an unusually large non-recurring payment (\$9 million audit payment) not to a stronger economy. Other major revenue sources were close to the estimate for the month. Cumulatively, General Fund-State collections are now \$24.2 million higher than expected in the two months since the June forecast.

Nationally, there are clear signs that after a strong first quarter, economic growth has slowed a bit. The Bureau of Labor Statistics reported that the U. S. economy added only 32,000 jobs in July, much less than expected. In addition the May and June numbers were revised downward. Also, the Bureau of Economic Analysis reported that second quarter real GDP increased only 3.0 percent. This was down from 4.5 percent in the first quarter and was lower than expected in the June forecast. The weaker GDP number was primarily due to a deceleration in consumer spending from 4.1 percent in the first quarter to just 1.0 percent in the second.

Weaker consumer spending has resulted in a little less than expected Revenue Act receipts the last couple of months. Excluding this month's \$9 million audit payment, Revenue Act receipts were \$3.7 million, 0.4 percent, less than the estimate for the month which primarily reflects June 2004 business activity of monthly taxpayers and April-June activity of quarter taxpayers and \$24.6 million (1.6 percent) less than expected for the two months since the June forecast. After three strong months, Revenue Act growth has slowed the last two months. This month Revenue Act receipts adjusted for special factors and new legislation were 5.5 percent above the year-ago level. Last month adjusted growth was 3.2 percent. Two months ago Revenue Act receipts increased 7.1 percent and they were up 10.0 percent three months ago. Despite the slower than expected growth of Revenue Act taxes, overall collections are close to the estimate and, barring further deceleration in Revenue Act growth, the forecast is still pretty much on track.

Preliminary data on tax payments of 15,221 mostly large taxpayers who filed electronically for the current month show moderate growth across-the-board. Tax payments of businesses in the retail trade and food services sector were up 4.4 percent while non-retailers reported a 5.0 percent increase. Last month this data showed tax payments by retailers up 4.2 and non-retailers up 4.1 percent. For the current month all three-digit retail NAICS sectors reported an increase in tax payments with the notable exception of motor vehicle and parts retailers who reported a 3.6 percent decline. This was the first monthly decline for this sector since December 2002. Two of twelve three digit retail NACIS sectors reported double-digit gains: food and beverage stores (+17.1 percent) and building material/garden equipment retailers (+15.7 percent). Growth in other retail trade sectors ranged from a 9.7 increase reported by furniture and home furnishing stores to a 2.4 percent increase reported by general merchandise stores. Most major non retail NACIS sectors reported an increase in tax payments, although there was considerable variation by sector. Sectors reporting increases include the transportation and warehouse sector (+19.5 percent), the health services sector (+14.4 percent), the manufacturing sector (+9.2 percent), wholesale trade (+7.5 percent) and the construction sector (+5.3 percent). Sectors reporting declines include utilities (-4.8 percent), finance and insurance (-13.4 percent), and professional, scientific and technical services (-5.8 percent).

Non-Revenue Act General Fund taxes collected by the Department of Revenue were \$26.4 million above the estimate for the month. Higher real estate excise tax (+\$23.9 million) and, property tax (+\$1.6 million) payments accounted for most the positive variance. For the months other major revenue sources were close to the estimate. Higher Non Revenue Act receipts this month increases the cumulative variance since the June forecast for these taxes to +\$38.5 million. Most of this (\$28.9 million) is due to much stronger than expected real estate activity.

Real estate activity accelerated this month. Taxable activity (based on closings in June which reflect tax payments to the state in July) was 46.3 percent higher than a year-ago. This is well above last month's 18.8 percent gain and is the strongest growth since June 1998. Growth continues to be driven primarily by higher prices. In the most recent month, although there was an acceleration in the growth of transactions (+16.6 percent), the value per transaction increased 25.4 percent. Aside for an anomaly in 2001, this is the first time the value per transaction has exceeded 20 percent since December 1997. Although the Fed has signaled that short term rates will rise, it may be a while before this translates into sufficiently high mortgage rates to significantly weaken real estate activity.

Department of Licensing General Fund-State collections, which primarily reflect various license fees, were \$851,000 above the estimate for the month. Department of Licensing General Fund-State collections are now \$1.2 million above the forecast for the two months since the June forecast.

The attached Table 1 provides a comparison of collections with the June 2004 forecast for the July 11 – August 10, 2004 collection period and cumulatively since the June 2004 forecast. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
August 10, 2004 Collections Compared to the June 2004 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
July 11 - August 10, 2004				
Department of Revenue-Total	\$960,838	\$992,522	\$31,684	3.3%
Revenue Act** (1)	848,340	853,616	5,277	0.6%
Non-Revenue Act(2)	112,498	138,905	26,407	23.5%
Liquor Sales/Liter	7,803	8,424	621	8.0%
Cigarette	4,552	4,153	(399)	-8.8%
Property (State School Levy)	11,897	13,500	1,603	13.5%
Estate	23,708	23,869	162	0.7%
Real Estate Excise	50,933	74,807	23,874	46.9%
Timber (state share)	0	0	0	NA
Other	13,606	14,152	547	4.0%
Department of Licensing (2)	2,870	3,721	851	29.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$963,707	\$996,242	\$32,535	3.4%
Cumulative Variance Since the June 2004 Forecast (June 11, 2004 - August 10, 2004)				
Department of Revenue-Total	\$2,030,132	2,053,052	22,920	1.1%
Revenue Act** (3)	1,540,424	1,524,864	(15,560)	-1.0%
Non-Revenue Act(4)	489,708	528,188	38,480	7.9%
Liquor Sales/Liter	16,559	16,489	(70)	-0.4%
Cigarette	9,187	9,316	129	1.4%
Property (State School Levy)	287,761	288,536	776	0.3%
Estate	30,992	34,400	3,409	11.0%
Real Estate Excise	102,046	130,939	28,893	28.3%
Timber (state share)	0	(0)	(0.0)	NA
Other	43,164	48,508	5,344	12.4%
Department of Licensing (4)	8,425	9,661	1,236	14.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,038,557	\$2,062,713	\$24,156	1.2%

1 Collections July 11 - August 10, 2004. Collections primarily reflect June 2004 activity of monthly taxpayers, and April-June activity of quarterly filers.

2 July 1-31, 2004 collections.

3 Cumulative collections, estimates and variance since the June 2004 forecast; (June 11 - August 10, 2004) and revisions to history.

4 Cumulative collections, estimates and variance since the June forecast; (June 2004) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
July 10, 2004 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
June 11 - July 10, 2004				
Department of Revenue-Total	\$1,060,530	\$1,060,530	\$0	0.0%
Revenue Act (1)	671,247	671,247	0	0.0%
Non-Revenue Act(2)	389,283	389,283	(0)	-0.0%
Liquor Sales/Liter	8,065	8,065	0	0.0%
Cigarette	5,163	5,163	(0)	-0.0%
Property (State School Levy)-net	275,036	275,036	0	0.0%
Property tax collections	275,036	275,036	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	10,531	10,531	(0)	-0.0%
Real Estate Excise	56,132	56,132	0	0.0%
Timber (state share)	0	0	0	NA
Other	34,356	34,356	(0)	-0.0%
Department of Licensing (2)	5,159	5,594	435	8.4%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,065,690	1,066,124	\$434	0.0%

Cumulative Receipts: June 11 - July 10, 2004 & Revisions to History

Department of Revenue-Total	1,060,530	\$1,060,530	\$0	0.0%
Revenue Act (3)	671,247	671,247	0	0.0%
Non-Revenue Act(4)	389,283	389,283	(0)	-0.0%
Liquor Sales/Liter	8,065	8,065	0	0.0%
Cigarette	5,163	5,163	(0)	-0.0%
Property (State School Levy)-net after transfer	275,036	275,036	0	0.0%
Property tax collections	275,036	275,036	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	10,531	10,531	(0)	-0.0%
Real Estate Excise	56,132	56,132	0	0.0%
Timber (state share)	0	(0)	(0)	NA
Other	34,356	34,356	(0)	-0.0%
Department of Licensing (4)	5,506	5,767	261	4.7%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,066,036	\$1,066,297	\$261	0.0%

Preliminary. Reported in the July 10, 2004 collection report.

1 Collections June 11 - July 10, 2004. Collections primarily reflect May 2004 business activity of monthly taxpayers.

2 June 1-30, 2004 collections.

3 Cumulative receipts since the June 2004 forecast: June 11- July 10,2004 & revisions to history.

4 Cumulative receipts since the June 2004 forecast (June) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

